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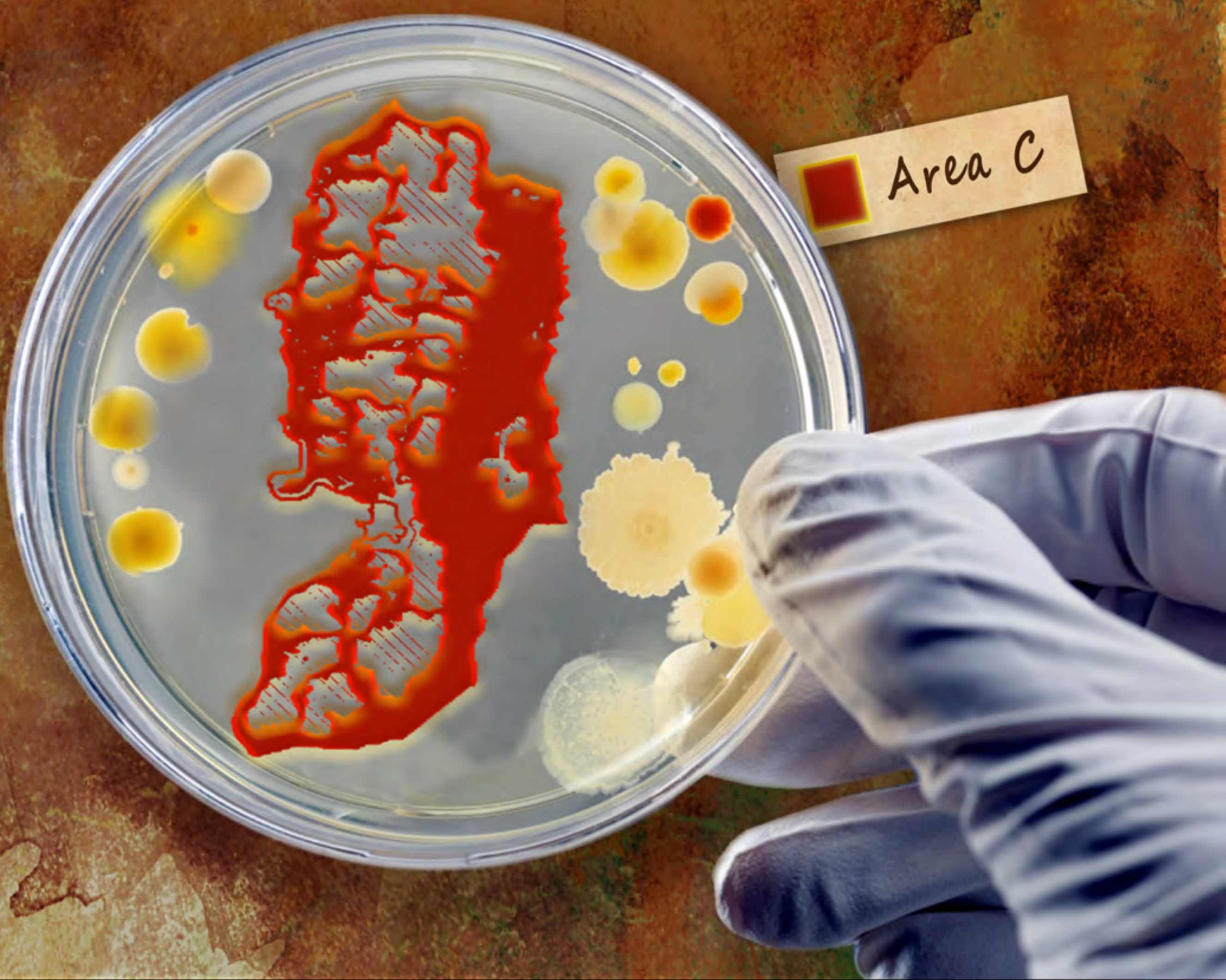
# The economic strangulation of the West Bank: The World Bank Report on "Area C"




Compiled for Sadaka by Philip O'Connor

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# The Economic Strangulation of the West Bank

# The World Bank Report on “Area C”

## Sadaka Paper No 16


## Compiled by Philip O’Connor


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# The economic strangulation of the West Bank
# The World Bank Report on "Area C"

## Summary


**For many years, Israel has imposed severe restrictions on Palestinian access to, and economic activity in, Area C in the West Bank.**

**In its report** ***Area C and the Future of the Palestinian Economy*** **(published in October 2013), the World Bank estimates that, if these restrictions were lifted, the total potential value to the Palestinian economy could amount to around $3.4 billion or about 35% of Palestinian GDP at 2011 levels.**

**The resulting increase in revenues for the Palestinian Authority could be as much as $0.8 billion, which would notionally cut its fiscal deficit by half, thereby significantly reducing its need for support by international donors.**


The Palestinian Authority has no jurisdiction in Area C, which contains around 61% of the land area of the occupied West Bank. It is contiguous. The rest of the West Bank (Areas A and B) consists of 166 "islands" of territory within Area C. Israel has illegally transferred around 350,000 of its citizens into Area C, where they live in 125 colonies and a further 100 or so outposts. Colonisation of this kind is a war crime under the Rome Statute of the International Criminal Court.

These arrangements, established by the Oslo accords, were supposed to be temporary. Under the 1995 Israeli-Palestinian Interim Agreement, the transfer of Area C to Palestinian jurisdiction should have been complete by 1997. This didn't happen and in the meantime Israel has maintained severe restrictions on Palestinian access to Area C for most kinds of economic activity – and by so doing has strangled Palestinian economic development.

## The World Bank report says

Area C is key to future Palestinian economic development, because it is richly endowed with natural resources, including:

- large area of fertile land for agriculture, with the water to irrigate it
- valuable minerals, principally potash and bromine in the Dead Sea, which is already exploited by Israel and Jordan, but not Palestine
- large amounts of stone for quarrying
- major global tourism potential, especially around the Dead Sea

But Israel has prevented Palestinians from making use of these resources. For example:

**Agriculture**

*"Area C includes almost all the land of the West Bank suitable for agricultural production … Palestinian access to much of this land though, is either prohibited or severely restricted … . The Land Research Center (LRC) has estimated that almost half a million dunums of land suitable for agriculture in Area C is not cultivated by Palestinians. Some of this cannot be cultivated because of restricted access – LRC estimates that 187,000 dunums are cultivated or occupied by Israeli settlements – and some of it cannot be cultivated due to lack of water. In addition, another 1 million dunums could be used for rangeland or forestry were current restrictions lifted. Although of lower economic potential, this land could generate useful income, as discussed below."* (p 9)

**Minerals**

*"Proven vast mineral deposits exist in the Dead Sea, offering major potential for the Palestinian economy. As the large international corporation Israeli Chemicals, Ltd. (ICL) notes in its 2012 annual report, 'The Dead Sea is a vast (practically inexhaustible) and highly concentrated source of reserves of potash, bromine, magnesium and salt'. Access to this resource endowment would permit the emergence of several large industrial activities based on the extraction of potash, bromine and magnesium, as well as salts and secondary industries such as cosmetics. As yet, though, the Palestinian economy is unable to benefit from this potential due to restricted access, permit issues and the uncertainties of the investment climate. This contrasts sharply with the experience of Israel and Jordan."* (p 11)

**Quarrying**

*"Palestinian stone mining and quarrying is already Palestinian territories' largest export industry with exports based on the famous 'Jerusalem Gold Stone'. However, this is a struggling industry, due to an inability to obtain permits to open new quarries, and with most existing quarries in Area C unable to renew their licenses."* (p ix)

**Tourism**

*"Area C has major global tourism potential, but for Palestinians this remains largely unexploited due to a large degree to current restrictions on access and investment, in particular around the Dead Sea. Palestinian Dead Sea tourism development was envisaged in the Interim Agreement, but has not yet emerged."* (p ix)

In addition to these specific Israeli restrictions, there is the general problem of movement and access in the West Bank. As the World Bank Report says:

> *"The movement of people and goods into and out of the Palestinian territories, and within the West Bank, is severely limited by a multi-layered system of physical, institutional, and administrative impediment. Physical barriers are compounded by unpredictable regulatory measures and practices – notably the large list of "dual use" items that cannot be imported because Israel regards them as a security risk -- and by limited access to water and to the electromagnetic spectrum."* (p 3)

This behaviour by Israel is outrageous. Think about it. It has taken over Palestinian land in the West Bank by force. It has occupied this land for nigh on half a century. It has colonised it. And it prevents Palestinians who live there from making use of their own resources for economic development in order to reduce unemployment and poverty rates.

# The economic strangulation of the West Bank
# The World Bank Report on “Area C”

## What is Area C?

Under the Oslo Peace Accords (1995 “Interim Agreement”) the West Bank (excluding East Jerusalem) was “temporarily” divided into Areas “A”, “B” and “C”. This division was intended to last until a final status agreement was reached within five years.

Area A, which contains most Palestinian urban areas, is under Palestinian civic and security authority while Area B is under joint Palestinian civil and Israeli security administration. Areas A and B compose 39% of the West Bank. Area C, which is under full Israeli administrative and security control and consists of 61% of the West Bank, was designated by Oslo to be “gradually transferred” to the Palestinian Authority within a period of 5 years, except for the parts to be agreed upon within the final settlement agreement.

As the World Bank says (p3), *“[t]he vague definition of Area C in the Interim Agreement made it difficult to identify its exact boundaries; consequently Area C has come to be defined as all West Bank territory that is not part of Areas A and B.”* Authority over planning and zoning in Area C, which was to have been transferred to the Palestinian Authority by the end of 1998, has remained with Israel. There is no Palestinian Authority presence in Area C.

## Occupation and Colonisation

Since Oslo there has been a massive illegal transfer of Israeli population into Area C through the spread of settlements, many of them developed into complete towns with extensive and sophisticated infrastructure and commerce. The Palestinian population of the largely rural Area C is no more than 180,000 – 6.6% of the Palestinian population of the West Bank – while, since 1995, the population of Israeli settlers in Israeli-only settlements, guarded and protected by a massive Israeli Army deployment, has grown from 111,600 in 1993 to 328,423 in 2012 (with are a further approximately 200,000 illegal settlers in East Jerusalem). These settlements take up 3.25% of the West Bank but:

> “The territory actually controlled by settlements far exceeds this and ... amounts to fully 68 percent of Area C. In addition to built-up areas, this includes the settlements' municipal boundaries, development master plan areas and road networks, all of which are usually off limits to Palestinians. Reports by the Israeli Ministry of Defense in 2012 further state that an additional 10 percent of Area C has been earmarked for settlement expansion.” (p5)


The illegal Israeli settlement of Har Homa (formerly Abu Ghneim) in East Jerusalem

Just 1% of the land of Area C is designated by the Israeli authorities for Palestinian use: *"the remainder is heavily restricted or off-limits to Palestinians, with 68 percent reserved for Israeli settlements, c. 21 percent for closed military zones, and c. 9 percent for nature reserves (approximately 10 percent of the West Bank, 86 percent of which lies in Area C)."* (p4)

The result is a relentless squeeze on the Palestinian population through prevention of building, home demolitions and sporadic settler terrorism to force people to move out and into the over populated restricted Palestinian built up areas in Areas A and B. The Jordan Valley (composing 30% of the West Bank) is potentially the bread basket of Palestine and is of crucial strategic importance for any future Palestinian State, but has been sealed off as a closed military zone.

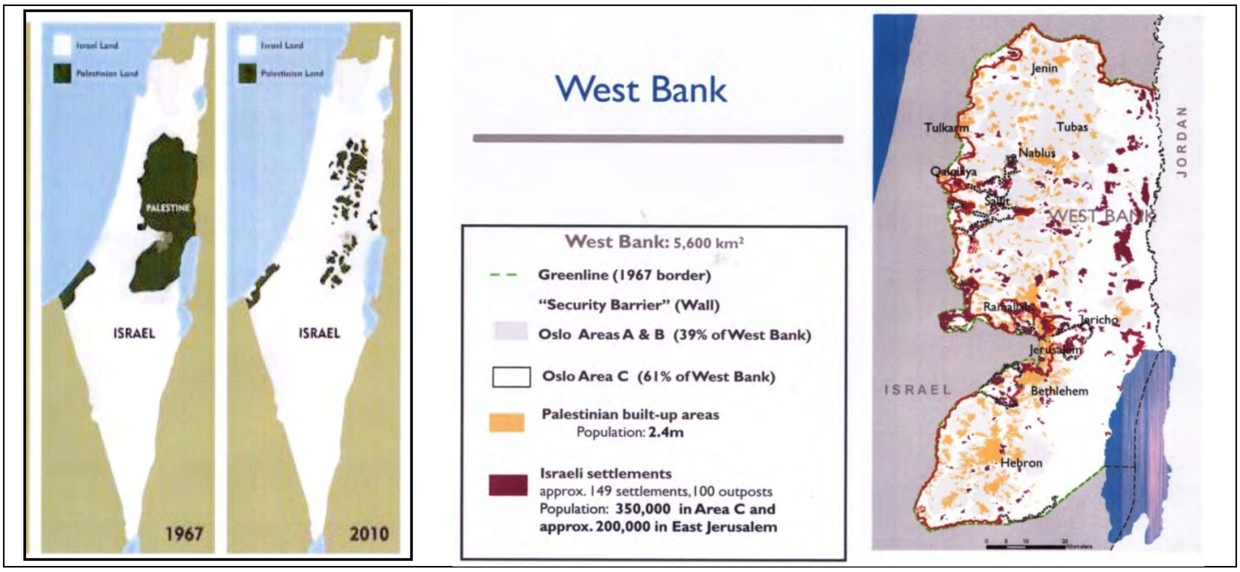
**Since 2000, more than 4,800 Palestinian houses and structures have been demolished by the Israeli authorities in Area C.**

After the Israeli demolition of an "illegal" Bedouin village in Area C

The severe housing restrictions and demolition of "unapproved" homes attracts extensive sober commentary in the World Bank report:

> "Even more than in the larger cities, Israeli restrictions impair construction in the Palestinian communities located entirely or partially in Area C. Only 10% of the 130 or so Palestinian villages in Area C have "Special Partial Outline Plans" prepared by the Israeli Civil Administration (ICA). These are master plans permitting the expansion of the community – but strictly demarcate boundaries beyond which expansion cannot occur. The majority of villages have no such plans and are for the most part located on land classified as either agricultural or nature reserve land. Anecdotal evidence collected through interviews suggests that infrastructure projects serving the day-to-day needs of the Palestinians in Area C, such as the repair of roads or connections to water supply, are frequently delayed or denied by the ICA. Bedouin communities in Area C have been particularly disrupted by planning and zoning restrictions, and have experienced the demolition of even temporary structures." (p18)

The restrictions on building and tight housing supply has led to rapid inflation in the cost of housing of the most basic type. The restrictions also mean that a potentially flourishing construction industry cannot develop.




*Above left:* In green are the Palestinian territories of Gaza, East Jerusalem and the West Bank occupied by Israel since 1967 and the areas remaining under Palestinian administration in 2010. *Right:* The West Bank and "Area C", 2012

## Economic strangulation

Area C holds the most significant water and land reserves available for Palestinian development, as well as the bulk of Palestinian agricultural and grazing land. It is also the only contiguous territory in the West Bank and hence any large-scale infrastructure projects (roads, water and electricity networks, etc.) also involve work in Area C. As a result, the entire population of the West Bank is directly affected by what happens in Area C.

Area C contains all the components needed for a functioning Palestinian economy. But Israeli restrictions on movement and economic activity has strangled this economic potential (while boosting that of the settlements). The extraction of natural resources or development of public infrastructure in Area C by Palestinians is described by the Report as virtually impossible. According to it:

> *"**Restrictions on economic activity in Area C of the West Bank have been particularly detrimental to the Palestinian economy**.* … the potential contribution of Area C to the Palestinian economy is large. Area C is richly endowed with natural resources and it is contiguous, whereas Areas A and B are smaller territorial islands. The manner in which Area C is currently administered virtually precludes Palestinian businesses from investing there." (p vii)
>
> *"**Area C is key to future Palestinian economic development**.* ... [It] is particularly important because it is either off limits for Palestinian economic activity, or only accessible with considerable difficulty and often at prohibitive cost. Since Area C is where the majority of the West Bank's natural resources lie, the impact of these restrictions on the Palestinian economy has been considerable. ... [T]he key to Palestinian prosperity continues to lie in the removal of these restrictions with due regard for Israel's security...
>
> "... rolling back the restrictions would bring substantial benefits to the Palestinian economy and could usher in a new period of increasing Palestinian GDP and substantially improved prospects for sustained growth." (p viii)

A daily challenge for workers: long waits at checkpoints and access gates

One result of Israeli restrictions on economic activity is that the Palestinian economy is overwhelmingly dependent on “donor financed consumption”:

> “For a small open economy, prosperity requires a strong tradable sector with the ability to compete in the global marketplace. The faltering nature of the peace process and the persistence of administrative restrictions ... on trade, movement and access have had a dampening effect on private investment and private sector activity. Private investment has averaged a mere 15 percent of GDP over the past seven years, compared with rates of over 25 percent in vigorous middle income countries.” (p vii)

Manufacturing, usually a key driver of export-led growth, has stagnated since 1994, its share in GDP falling from 19% to 10% by 2011. Unemployment currently runs at 22%, with almost a quarter of the workforce employed by the Palestinian Authority. Israeli restrictions are the major barrier to private sector investment:

> “While the unsettled political environment and internal Palestinian political divisions have contributed to investor aversion to the Palestinian territories, Israeli restrictions on trade, movement and access have been seen as the dominant deterrent.” (p vii)

> “Access to Area C will not cure all Palestinian economic problems - but the alternative is bleak.” (p xii)

One result of the economic and demographic squeeze across the West Bank has seen the numbers of people dependent on agriculture doubling since 1993 as the sector accounts for an ever declining percentage of actual Palestinian output. This, according to the World Bank, reflects *“the difficulties of developing alternative economic activities as well as ... the limitations placed on agriculture itself”* (p 9).

In Area C the severe restrictions on movement and access have also led to a sustained decline in the educational standards of the Palestinian population.




## Donor dependency

Palestinian GDP declined by a massive 9% per annum from 2002 when Israel responded to the second Intifada with an *“intensification ... of a complex set of security-related restrictions that impeded the movement of people and goods and fragmented the Palestinian territories into small enclaves lacking economic cohesion”* (p 1). This was followed by a period of slow growth and then, as restrictions were eased somewhat, to sustained growth of an average 9% per annum in 2007-11. But this was *“driven largely by extraordinary levels of donor budget support, which amounted to USD 1.8 billion, or 29 percent of GDP, in 2008”* (p 1). When this donor support contracted with the western financial crisis – 50% by 2012 – growth rates rapidly declined, to under 2% by 2013 (and -0.1% in the West Bank).

But this donor dependency itself is a result of the impossible conditions applied by the Israeli occupation which make any development of the private sector near impossible:

> “… the restrictions on labor movement between the Palestinian territories, the restrictions on movement of labor within the West Bank have been shown to have a strong impact on employability, wages, and economic growth. Israeli restrictions render much economic activity very difficult or impossible to conduct on about 61 percent of the West Bank territory, called Area C ... ***The complex system of restrictions on movement and access imposed by Israel is the most significant impediment to Palestinian private sector growth ...***
>
> “The movement of people and goods into and out of the Palestinian territories, and within the West Bank, is severely limited by a multi-layered system of physical, institutional, and administrative impediment. Physical barriers are compounded by unpredictable regulatory measures and practices - notably the large list of "dual use" items that cannot be imported

because Israel regards them as a security risk – and by limited access to water and to the electromagnetic spectrum." (p 3)

The Bank tells us that "dual use" goods are those the Israeli authorities state could also serve military purposes, and therefore cannot be imported by Palestinian businesses. Cement in Gaza for example was designated "dual use" for a period. The Israeli list is *"unusually extensive",* forcing virtually all Palestinian businesses to use inefficient input mixes, particularly in food and beverages, pharmaceuticals, textiles, information technology, agriculture and metal processing. The "dual use" list does not apply to Israeli importers and, according to the World Bank, *"it is reported that Palestinian businesses can sometimes procure these goods from Israeli businesses".*

Road in Area C for Israelis, settlers and military only

and "protected" by electrified security fencing

## Water

The situation with Palestinian access to water is best described in the clinical language of the World Bank:

*"**While most of the West Bank's aquifer and spring water is located in Area C, Palestinians have not been able to draw their agreed allocation of 138.5 MCM [million cubic metres] per annum**.* There are three underground aquifers in the West Bank: the Eastern, the Western, and the North-eastern aquifers. They are located either entirely in Area C (the Eastern Aquifer) or are shared with Israel (the North-eastern and Western Aquifers). Out of the 138.5 MCM annual allocation in 2011, for example, only 87 MCM was abstracted by the Palestinians.

"Digging wells or building water conveyance and wastewater treatment and reuse infrastructures requires approval by the Israeli Civil Administration (ICA) as well as by the Joint Water Committee if Area C is implicated, which is almost always the case. Selby (2012) argues that these requirements have severely restricted the number of additional wells: new Palestinian wells drilled since the Oslo Agreement provide only 13 MCM/year – below the 20.5 MCM/year allocated under the Interim Agreement for the five-year transitional period, and considerably less than the additional 70-80 MCM/year identified for Palestinian 'future needs'.

"What is more, half of Palestinian wells have dried up over the last twenty years – with the result that total Palestinian water production in the West Bank has dropped by 20 MCM/year since 1994. This decline has been partially offset by an increase in water purchases from Israel of over 100 percent between 1995 and 2010. Even so, per capita

> water access has declined by more than 30 percent. These restrictions on water availability limit Palestinian irrigation possibilities and thereby constrain potential agricultural production.” (p 9)

The report draws various conclusions from this including:

> “***Irrigating the approximately 326,400 dunums of arable land notionally available for Palestinian cultivation in Area C would increase Palestinian Area C production by USD 1.068 billion.*** With potential additional rain fed land added and current Palestinian Area C production of USD 316 million discounted, the value of annual production would increase by some USD 890 million.” (p 10)

## The potential Palestinian economy

The World Bank examined the consequences if *“the various physical, legal, regulatory and bureaucratic constraints that currently prevent investors from obtaining construction permits, and accessing land and water resources were lifted, as envisaged under the Interim Agreement”* (p viii). It states that on the basis of relatively conservative estimates, the impact on agriculture, Dead Sea minerals exploitation, stone mining and quarrying, construction, tourism, telecommunications and cosmetics alone ***“would amount to at least USD 2.2 billion per annum in valued added terms - a sum equivalent to 23 percent of 2011 Palestinian GDP”*****.**

In fact of course Israel not only denies Palestinians access to their economic resources and creates insurmountable barriers to their development, it also plunders them to its own benefit:

> “The Dead Sea abounds in valuable minerals, principally large deposits of potash and bromine. Israel and Jordan together derive some USD 4.2 billion in annual sales of these products, and account for 6 percent of the world's supply of potash and fully 73 percent of global bromine output.” (p viii)

Another area of great potential development is the mining of quality stone, already the largest export industry. But it cannot develop this *“due to an inability to obtain permits to open new quarries, and with most existing quarries in Area C unable to renew their licenses”* (p ix). The World Bank provides extensive detail on similar controls, restrictions and disincentives to development in areas great potential such as tourism, agriculture and telecommunications. There have been massive constraints and restrictions preventing the simple laying of a fibre network for example. Israeli restrictions often have a range of different secondary effects, such as on the quality and scope of infrastructure. In the restrained language of the World Bank:

> “Transportation infrastructure is particularly problematic as Palestinian use of roads in Area C is highly restricted, and travel times can be inordinate; the Palestinian Authority has also been unable to develop roads, airports or railways in or through Area C. Restrictions in Area C have impeded the development of "soft" institutional infrastructure such as banking services, which are hamstrung by the inability to open and service branches, and the inability in practice to use land in Area C as collateral. Insecurity and the difficulty of policing Area C also deter investors.” (p x)

The Bank report concluded ***“the total potential value added from alleviating today's restrictions on access to, and activity and production in Area C is likely to amount to some USD 3.4 billion - or 35 percent of Palestinian GDP in 2011”***. Removal of restrictions would also produce a 35% increase in employment, cut the fiscal deficit by 56%, greatly enhance financial credibility and reduce donor dependency.

## World Bank opinions in a nutshell

- “Area C is key to future Palestinian economic development.”
- “The territory actually controlled by settlements ... amounts to fully 68 percent of Area C ... this includes the settlements' municipal boundaries, development master plan areas and road networks, all of which are usually off limits to Palestinians.”
- “Transportation infrastructure is particularly problematic as Palestinian use of roads in Area C is highly restricted, and travel times can be inordinate.”
- “Infrastructure projects serving the day-to-day needs of the Palestinians in Area C ... are frequently delayed or denied by the ICA [Israeli Civil Authority]”.
- “Unemployment ... remains very high and almost a quarter of the workforce [is] employed by the Palestinian Authority.”
- “Israeli restrictions on trade, movement and access [are] the dominant deterrent ... [T]he key to Palestinian prosperity ... lies in the removal of these restrictions.”
- “The manner in which Area C is currently administered virtually precludes Palestinian businesses from investing there ... The complex system of restrictions on movement and access imposed by Israel is the most significant impediment to Palestinian private sector growth ...”
- “Potential additional output from the sectors evaluated ... would amount to at least USD 2.2 billion per annum ... equivalent to 23 percent of 2011 Palestinian GDP.”
- “Irrigating this unexploited area as well as accessing additional range and forest land could deliver an additional USD 704 million in value added to the Palestinian economy.”
- Access to the mineral wealth of the Dead Sea “could derive up to USD 918 million per annum ... almost equivalent to the size of the entire Palestinian manufacturing sector.”
- The report provides detailed similar calculations of the added value potential of release of restrictions on other resources, e.g. tourism, construction, communications.
- “While most of the West Bank's aquifer and spring water is located in Area C, Palestinians have not been able to draw their agreed allocation ... [P]er capita water access has declined by more than 30 percent ...”
- Removing Israeli restrictions would “lead to a 35 percent increase in employment”.

**“Access to Area C will not cure all Palestinian economic problems - but the alternative is bleak.”**

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Sadaka – an Arabic term for 'friendship' – is an Association established in Ireland in 2009 to maximise support in Ireland for the Palestinian people in their struggle for national, democratic and human rights. It aims to persuade those in government to champion the cause of justice for Palestine.

The Board of Sadaka consists of Marie Crawley (Chair), Dr. David Morrison, Alan Lonergan, Hilary Minch, Philip O'Connor, Stella Carroll and Michael Robinson.

**If you would like to become a supporter of Sadaka or donate to our campaign, please contact us at:**


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*Sadaka supports a peaceful settlement in Palestine / Israel based on the principles of democracy and justice, be that in two states or in one state. We maintain an independent position on internal politics within Palestine, favouring neither Fatah, Hamas nor any other Palestinian political organisation.*